



STATE OF WASHINGTON
DEPARTMENT OF COMMUNITY,
TRADE AND ECONOMIC DEVELOPMENT

MAIN STREET TAX CREDIT INCENTIVE PROGRAM

JUST THE FAQs

9/21/05 Update

1. Do we need to be a certified Main Street program in order to seek contributions from businesses wishing to take advantage of the new tax credit incentive program?

Your organization does not need to be a Main Street program, but it must meet certain requirements and be officially designated by the Department of Community, Trade and Economic Development (CTED) to be eligible. Application forms for designation are available on the Washington State Main Street Program (WSMSP) website (www.downtown.wa.gov). This form includes information about eligibility requirements.

2. If we are already a Downtown Revitalization Tier System Network member, do we need to fill out an application form and be officially designated?

Yes.

3. When does the tax credit incentive program go into effect?

A business may apply for a credit against their State B&O tax/Public Utility tax (PUT) beginning January 1, 2006. Applications for approval must be submitted to the Department of Revenue (DOR) and approved prior to making a contribution to a designated organization. More information will be available in late fall regarding the application format and process.

4. Our City government does not have a local B&O tax. Does this matter?

The credit pertains to State B&O taxes and State Public Utility taxes only, so whether your City has a local B&O tax is not a factor.

5. What kinds of businesses pay a PUT?

Most of the PUT paying businesses undertake transportation or communications activities, or supply energy, natural gas, or water.

6. Do tax credit contributions received by a designated organization have to be spent within the calendar year that it's received?

No.

7. Are there any restrictions on what a designated organization can do with contributions they receive as a result of the tax incentive program?

No, but there are rules about what nonprofits can do with any contribution they receive (e.g., must meet their exempt purpose). Contact the nonprofit division of the IRS at 1-877-829-5500 for more information, or download publication #557, page 20 and #578, pages 20 and 21 from their website (www.irs.gov).

8. Should a designated organization look at contributions received through the tax credit incentive program as a source of stable and ongoing funds?

No, even though there is not a “sunset clause” to the tax incentive program, credits to a particular business are not guaranteed – the total statewide allocation is \$1.5 million per year – and approvals are given each year on a first come basis.

9. Are all businesses eligible to take advantage of the new tax credit incentive program?

Because this answer is rather complex, the best thing to do is simply ask a perspective contributor whether they pay a B&O tax or PUT. A business will be able to take advantage of the program as long as they have a State B&O tax and/or State PUT liability each year after all other credits are taken, such as the small business tax credit (available for businesses whose total B&O tax liability is less than \$71 a month), and the multiple activities tax credit (available for certain manufacturers, extractors, and sellers). In addition, service businesses that have non-retail activities with a total annual gross income under \$28,000 or public utility businesses with a total annual gross income under \$24,000 may not have to pay PUT or B&O taxes. There are also businesses performing certain activities that are exempt from B&O tax and as such would not be able to take advantage of this program (e.g., real estate transactions, certain nonprofit activities, and others).

10. Do businesses get to take the tax credit in the same year that it is approved?

No, a business may use the approved credit any time during the calendar year following the year in which it was approved and contributed by reporting it on their excise tax return(s). However, in order for a business to use the full amount of the tax credit they are taking, they must have accrued a State B&O tax/PUT liability equal to, or exceeding the amount of the credit. The business must also file its state excise tax return(s) electronically. A credit cannot be carried forward from year-to-year nor can a credit be refunded if the B&O tax/PUT liability is not equal to, or greater than, the credit amount approved for use in that year.

11. Does a business need to reapply for the tax credit each year?

Yes. Applications will be accepted on a first come basis beginning January 1 of each year.

12. Does an organization have to reapply for designation each year?

CTED does not anticipate that organizations will need to reapply each year. However, organizations will need to reapply if changes occur that could potentially affect their eligibility status (e.g., purpose, boundaries, general activities). There may also be some type of monitoring to ensure changes affecting status are being reported.

13. Will a designated organization need to provide receipts to businesses for their contributions?

Yes, the designated organization will also need to keep a record of contributions for at least five years to meet DOR requirements.

14. Do businesses have to file their initial applications for credit approval electronically, or do they just have to file their tax reports electronically?

The goal is to have businesses file both electronically.

15. How will the \$100,000 cap per designated organization, the \$250,000 per business cap, or the \$1.5 million statewide cap be determined?

Caps will be determined by totaling the amount of tax credits requested and approved, not by the contributions given. This means that it will be important for businesses to follow through in giving organizations the full amount of the contribution that they have been approved for -- or everyone will lose opportunities -- since it will be deducted from both your organization's cap and the statewide cap whether or not you actually receive it.

16. Can a business spread out their contribution throughout the year?

Yes, as long as the entire contribution is given to the designated organization within the calendar year in which it was approved, and they receive a receipt each time they make a contribution "installment".

17. If a designated organization has a 501(c)3 tax status, can a business making a tax credit contribution also "write off" the contribution, or a portion of it, as a charitable contribution deduction on their federal tax return?

The answer will vary depending on the type of business entity making the contribution. Information is included in federal tax return filing instructions as well as publications available from the IRS website (www.irs.gov). However, the business may want to talk with their accountant or call the business division of the IRS at 1-800-829-4933 to get a definitive answer.